Davis Distributing & Vending Limited

Annual Report 1971

DAVIS Davis Distributing & Vending Limited

Directors:

M. Levy, *Chairman of the Board*

B. Davis, *President*

S. D. Vader, *Vice President and Secretary*

I. J. Grosman, *Treasurer*

J. C. McCartney

Transfer Agent and Registrar:

The Metropolitan Trust Company
Toronto, Ontario

Co-Transfer Agent:

The Morgan Trust Company
Montreal, Quebec

Bankers:

Bank of Montreal, Toronto

Auditors:

Richter, Usher & Vineberg
Chartered Accountants, Toronto

Legal Counsel:

Harvey and Associates
Barristers & Solicitors, Toronto

Subsidiaries:

Nathan Davis Vending Limited
Young-Robertson Limited

Listing:

Canadian Stock Exchange

Davis Distributing & Vending Limited

REPORT TO THE SHAREHOLDERS

Our third annual report includes financial statements for the fiscal year ended June 30, 1971. Sales increased to $17,780,908 and net earnings increased sharply to $102,734. This is equivalent to 20.5¢ per share compared to 6.6¢ last year.

During the latter part of our fiscal year sales recovered from the lower levels experienced during the winter months. We have made progress in improving gross profit margins and in controlling overhead ratios. As a result our profits have improved considerably during a year of generally poor economic conditions.

Our subsidiaries Nathan Davis Vending Limited and Young-Robertson Limited are operating profitably. However, as both of these companies have gone through a period of consolidation and integration during the past fiscal year, it is expected that their contributions to earnings will be greater next year.

If approved by the shareholders, the company will amend its letters patent to enable the company to purchase its common shares. This will permit the directors to invest in the shares if they consider that to be in the best interests of the company.

The company has paid quarterly dividends on the common shares for two years. The dividend rate for the past year was 1¢ per quarter. In view of the improved profits of the company, the directors will be considering an increase in the dividend on the common shares and an initial dividend on the Class A shares at their next meeting.

We are continuing to search for acquisitions and new enterprises in areas where our knowledge and experience can be applied to advantage.

On behalf of the board,

B. DAVIS,
President.

October 8, 1971

DAVIS Davis Distributing & Vending Limited

CONSOLIDATED BALANCE SHEET

ASSETS	June 30 1971	June 30 1970
CURRENT ASSETS		
Cash	$ 112,735	$ 143,858
Accounts receivable	1,581,195	1,509,597
Inventories, at the lower of cost or net realizable value	1,416,998	1,096,599
Prepaid expenses and sundry assets	47,177	32,771
	$3,158,105	$2,782,825
FIXED ASSETS – Note 2		
Land, building, equipment, vehicles and leasehold improvements	$ 818,808	$ 680,400
Accumulated depreciation	253,893	148,663
	$ 564,915	$ 531,737
EXCESS OF COST OVER BOOK VALUE OF BUSINESSES AND SUBSIDIARY ACQUIRED – Note 3	$ 139,388	$ 75,000
	$3,862,408	$3,389,562
LIABILITIES		
CURRENT LIABILITIES		
Bank advances – Note 4	$ 705,000	$ 675,000
Accounts payable and accrued liabilities	1,697,900	1,470,613
Current portion of long term liabilities	12,008	14,547
Income taxes payable	83,412	
	$2,498,320	$2,160,160
LONG TERM LIABILITIES – Note 5	$ 198,243	$ 209,289
SHAREHOLDERS' EQUITY		
CAPITAL STOCK – Note 8	$ 537,856	$ 484,250
RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST – Note 9	627,989	535,863
	$1,165,845	$1,020,113
	$3,862,408	$3,389,562

Approved on behalf of the Board:

I. J. GROSMAN *Director*
M. LEVY, *Director*

AUDITORS' REPORT

To the shareholders of
DAVIS DISTRIBUTING & VENDING LIMITED

We have examined the consolidated balance sheet of Davis Distributing & Vending Limited and subsidiary companies as at June 30th, 1971 and the consolidated statements of earnings, retained earnings and excess of appraised value of land over cost, and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30th, 1971 and the results of their operations and the source and use of their funds for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
August 25th, 1971

RICHTER, USHER & VINEBERG,
Chartered Accountants.

Davis Distributing & Vending Limited

CONSOLIDATED STATEMENT OF EARNINGS

	For the Year Ended June 30 1971	June 30 1970
Sales	$17,780,908	$16,566,915
Cost of sales, operating and administrative expenses, exclusive of depreciation and interest	17,446,852	16,441,779
	$ 334,056	$ 125,136
Depreciation	$ 78,186	$ 44,732
Interest (including interest of $11,821 on long term debt, 1970—$12,503)	57,329	26,370
	$ 135,515	$ 71,102
Net earnings before income taxes	$ 198,541	$ 54,034
Provision for income taxes	95,807	22,584
Net earnings	$ 102,734	$ 31,450
Net earnings per class A and common share	20.5¢	6.6¢
Class A and common shares outstanding	501,803	475,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST

	1971	1970
Balance — beginning of year	$ 535,863	$ 525,818
Net earnings	102,734	31,450
Dividends paid on common shares	(10,608)	(13,500)
Expenses of share issue (net of income taxes)		(7,905)
Balance — end of year	$ 627,989	$ 535,863

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	1971	1970
Funds were provided from		
Operations		
Net earnings	$ 102,734	$ 31,450
Non cash charges to earnings		
— depreciation	78,186	44,732
	$ 180,920	$ 76,182
Proceeds from issue of common shares — Note 8	53,606	475,095
	$ 234,526	$ 551,277
Funds were used for		
Fixed asset additions	$ 111,364	$ 161,331
Equipment instalments and mortgage payments	11,046	11,036
Excess of cost over book value of businesses and subsidiary acquired	64,388	25,000
Dividends paid on common shares	10,608	13,500
Redemption of notes payable		37,500
	$ 197,406	$ 248,367
This resulted in an increase in working capital of	37,120	302,910
	$234,526	$551,277

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1971

NOTE 1 — BASIS OF CONSOLIDATION
The consolidated financial statements include the accounts of Davis Distributing & Vending Limited and the wholly owned subsidiaries Nathan Davis Vending Limited and Young-Robertson Limited.

NOTE 2 — FIXED ASSETS
Fixed assets are classified as follows:

	At Cost Or As Stated	Accumulated Depreciation	Net Book Value
Land, at appraised value June 16, 1965	$198,000		$198,000
Building	85,543	$ 29,843	55,700
Vending equipment	340,108	140,226	199,882
Warehouse and office equipment	102,479	50,438	52,041
Vehicles	55,000	28,521	26,479
Leasehold improvements	37,678	4,865	32,813
	$818,808	$253,893	$564,915

Depreciation rates adopted by the company are:

(a) On the diminishing balance method
- Building — 5% per annum
- Warehouse and office equipment — 20% per annum
- Vehicles — 30% per annum

(b) On the straight line method
- Vending equipment — 1/7 per annum
- Leasehold improvements — term of lease

NOTE 3 — EXCESS OF COST OVER BOOK VALUE OF BUSINESSES AND SUBSIDIARY ACQUIRED
With respect to one acquisition, an excess of cost over book value of $65,000, of which $50,000 remains unpaid, is subject to reduction in the event a subsidiary company does not earn a specified sum in the two year period ending June 30, 1972; in such event the unpaid balance will be reduced accordingly.

There is no present plan for amortization of the amount comprising the excess of cost over book value of the businesses and subsidiary acquired.

NOTE 4 — SECURITY FOR BANK ADVANCES
The accounts receivable have been pledged as security for the bank advances.

NOTE 5 — LONG TERM LIABILITIES
Long term liabilities consist of the following:

	June 30, 1971	June 30, 1970
7% Mortgage payable — Note 6	$ 33,286	$ 35,555
Equipment instalments payable	13,965	25,281
7½% Notes payable, due June 30, 1974	113,000	113,000
Balance of purchase price — Note 7	50,000	50,000
	$210,251	$223,836
Less current portion	12,008	14,547
	$198,243	$209,289

NOTE 6 – 7% MORTGAGE PAYABLE

The land and building at 162 Queen's Quay East, Toronto, are security for the mortgage payable. The mortgage is repayable $447 monthly including interest and matures February 1, 1977.

NOTE 7 – BALANCE OF PURCHASE PRICE

The balance of $50,000 due on the purchase of a vending business is payable August 31, 1972, either in cash or by the issue of common shares of the company at $2.00 per share, at the election of the vendor. This balance may be reduced as described in note 3.

NOTE 8 – CAPITAL STOCK

			June 30, 1971	June 30, 1970
Class A shares without par value				
Authorized		500,000		
Issued	June 30, 1971	325,000	$ 1,250	
	June 30, 1970	325,000		$ 1,250
Common shares without par value				
Authorized		500,000		
Issued	June 30, 1971	176,803	536,606	
	June 30, 1970	150,000		483,000
			$537,856	$484,250

On August 28, 1970 the company issued 26,803 common shares for a consideration of $53,606 on the acquisition of a subsidiary.

The Class A shares are convertible at any time into fully paid common shares on a one for one basis.

No dividend may be declared on the Class A shares in any financial period unless a dividend of the same or greater amount is or has been declared on the common shares in such financial period.

Options have been granted to employees to purchase up to 7,000 common shares at $3.50 per share until July 31, 1972.

25,000 common shares have been allotted for possible issue under the terms of the purchase referred to in note 7.

NOTE 9 – RETAINED EARNINGS AND EXCESS OF APPRAISED VALUE OF LAND OVER COST

The retained earnings and excess of appraised value of land over cost includes $158,777 excess of appraised value of land over cost resulting from an appraisal on June 16, 1965.

NOTE 10 – LEASE OBLIGATION

The company has a lease commitment expiring in 1989 for its warehouse at an annual rent of $78,027.

NOTE 11 – REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers as defined by The Securities Act (1966) of Ontario for the fiscal year ended June 30, 1971 was $88,220.

DAVIS Davis Distributing & Vending Limited

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